

## Chapter Ins 50

### ANNUAL AUDITED FINANCIAL REPORTS, ANNUAL FINANCIAL STATEMENTS AND EXAMINATIONS

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**Note:** Chapter Ins 50 was created as an emergency rule effective March 12, 1993.

#### Subchapter I — Annual Audited Financial Reports

**Ins 50.01 Definitions.** In this chapter:

- (1) "Alien insurer" has the meaning provided under s. 600.03 (2), Stats.
- (2) "Audited financial report" means a financial report prepared and conforming to s. Ins 50.06.
- (3) "Executive officer" means any individual charged with the active management and control in an executive capacity of a person, whether incorporated or unincorporated and includes, but is not limited to, a chair of the board, president, vice president, treasurer, secretary, controller, and any individuals performing similar functions.
- (4) "Foreign insurer" has the meaning provided under s. 600.03 (20), Stats.
- (5) "Independent certified public accountant" means:
  - (a) An independent certified public accountant, or independent accounting firm, in good standing with the American institute of certified public accountants and in all states in which the accountant or firm is licensed, or required to be licensed, to practice; or
  - (b) For Canadian and British companies, a Canadian chartered or British chartered accountant.
- (6) "Insurer" means an insurer licensed under s. 185.981, Stats., or ch. 611, 612, 613, 614 or 618, Stats., and the state life fund.
- (7) "Policyholder surplus" means capital and surplus.
- (8) "State of domicile" means the state where an insurer is domiciled or, for an alien insurer, its port of entry state.
- (9) "Work papers" means records kept by the independent certified public accountant of the procedures followed, the tests performed, the information obtained, and the conclusions reached pertinent to the independent certified public accountant's examination of the financial statements of an insurer. "Work papers" include, but are not limited to, audit planning documenta-

tion, audit guides, work programs, analyses, memoranda, letters of confirmation and representation, abstracts of company documents and schedules or commentaries prepared or obtained by the independent certified public accountant in the course of examination of the financial statements of an insurer or which support the opinion of the independent certified public accountant regarding the financial statements.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93; correction in (4) made under s. 13.93 (2m) (b) 7., Stats., Register, June, 2001, No. 546.

**Ins 50.02 Applicability.** Unless otherwise ordered by the commissioner, this subchapter applies to all insurers except:

- (1) An insurer is not subject to this subchapter for a calendar year in which the insurer has:
  - (a) Direct premiums written in this state of less than \$100,000 and less than 1,000 policyholders or certificate holders of directly written policies in the state at the end of the calendar year; and
  - (b) Assumed premiums nationwide of less than \$1,000,000 under reinsurance contracts or treaties and direct premiums written nationwide of less than \$1,000,000.
- (2) A foreign or alien insurer is exempt from this chapter except for s. Ins 50.03 if:
  - (a) It complies with another state's requirement to submit audited financial reports and the other state's requirement is found by the commissioner, in writing, to be substantially similar to the requirements of this chapter; and
  - (b) It files audited financial reports with that state's commissioner of insurance or equivalent agency.
- (3) An insurer licensed under ch. 612, Stats., if the insurer meets all of the following requirements:
  - (a) Has direct total written premium for the calendar year, including premiums on nonproperty coverage, of less than \$500,000;
  - (b) Has a net of reinsurance premium to policyholder surplus ratio of less than 3 to 1 as of the December 31 of the year for which an audited financial report is otherwise required.
  - (c) Is not authorized under its articles of incorporation to do business in more than 8 counties.

(d) Does not engage in the writing of nonproperty coverage unless the nonproperty coverage is 90% reinsured.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93; am. (1) (b), Register, December, 1995, No. 480, eff. 1-1-96; am. (3) (intro.) and (a) to (d) and r. (3) (e) and (f), Register, June, 2001, No. 546, eff. 1-1-02.

**Ins 50.03 Filing by exempt foreign and alien insurers.** A foreign or alien insurer which is exempt from this subchapter under s. Ins 50.02 (2) shall:

(1) File a copy of the audited financial report, report on significant deficiencies in internal controls, and the accountant's letter of qualifications which are filed with the other state with the commissioner not later than the filing dates specified in ss. Ins 50.05, 50.12 and 50.13, respectively. Canadian insurers which are not subject to this subchapter under s. Ins 50.02 (2) shall submit to the commissioner accountants' reports as filed with the Canadian Dominion department of insurance not later than the filing dates specified in s. Ins 50.05.

(2) File with the commissioner a copy of any notification of adverse financial condition report filed with, or required to be filed with, the other state within the time specified in s. Ins 50.11.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.04 Authority to obtain information or examine not restricted.** This subchapter does not limit the authority of the commissioner to require an insurer or any other person to provide information, or to conduct an examination of an insurer or any other person, under any other statute or rule.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.05 Filing and extensions for filing of annual audited financial reports.** (1) An insurer shall:

(a) Annually obtain or cause an audit of the insurer by an independent certified public accountant; and

(b) File an audited financial report that complies with s. Ins 50.06 with the commissioner on or before June 1 for the immediately preceding calendar year.

(2) The commissioner may require an insurer to file the audited financial report earlier than the date specified under sub. (1) if the commissioner gives 90 days advance notice to the insurer.

(3) The commissioner may grant extensions of the filing date under sub. (1) for 31-day periods if the insurer and independent certified public accountant establish there is good cause for an extension. A request for extension shall be submitted in writing not less than 10 days prior to the due date in sufficient detail to permit the commissioner to make an informed decision with respect to the requested extension.

(4) An insurer may not retain an accountant or accounting firm to comply with sub. (1) or s. Ins 50.07 unless the accountant or accounting firm is an independent certified public accountant, regardless of whether the commissioner has issued a ruling under s. Ins 50.08 (1). An insurer may not retain an accountant or accounting firm to comply with sub. (1) or s. Ins 50.07 if the commissioner under s. Ins 50.08 (1) rules that the accountant or accounting firm is not qualified or if the accountant or accounting firm does not comply with s. Ins 50.08 (2).

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.06 Contents of annual audited financial report.** The annual audited financial report required under s. Ins 50.05 shall comply with all of the following:

(1) Report the financial position of the insurer as of the end of the most recent calendar year and the results of its operations, cash flows and changes in capital and surplus for the year then ended in conformity with statutory accounting practices prescribed, or otherwise permitted, by the department of insurance, or equivalent agency, of the state of domicile, or, for a domestic insurer, in conformity with accounting practices prescribed or permitted in

annual statements filed with the commissioner, as provided under s. Ins 7.02.

(2) Include all of the following:

(a) The report of the independent certified public accountant.

(b) A balance sheet reporting admitted assets, liabilities, capital and surplus.

(c) A statement of operations.

(d) A statement of cash flows.

(e) A statement of changes in capital and surplus.

(f) Notes to financial statements. These notes shall be those required by the appropriate national association of insurance commissioners' annual statement instructions and accounting practices and procedures manual. The notes shall include a reconciliation of differences, if any, between the audited statutory financial statements and the annual statement filed pursuant to subch. II with a written description of the nature of these differences.

(3) Include financial statements prepared in a form and using language and groupings substantially the same as the relevant sections of the annual statement of the insurer filed with the commissioner. The financial statement shall be comparative, presenting the amounts as of December 31 of the current year and the amounts as of the immediately preceding December 31, except in the first year in which an insurer is required to file an audited financial report, the comparative data may be omitted.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93; **CR 01-050: renun. (2) (f) (intro.) and am., r. (2) (f) 1. and 2., Register October 2001 No. 550, eff. 11-1-01.**

**Ins 50.07 Designation of independent certified public accountant.** (1) An insurer shall, within 60 days after the insurer becomes subject to this subchapter:

(a) Provide the commissioner in writing the name and address of the independent certified public accountant retained to conduct the annual audit required by this subchapter.

(b) File with the commissioner a copy of the letter required to be obtained under sub. (3).

(2) Insurers not retaining an independent certified public accountant on the effective date of this rule shall register the name and address of their retained independent certified public accountant not less than 6 months before the date when the first audited financial report is to be filed.

(3) An insurer shall obtain a letter from the independent certified public accountant it retains to conduct the annual audit required by this subchapter. The letter shall state that the independent certified public accountant:

(a) Is aware of the provisions of the insurance code and the rules and regulations of the insurance department or equivalent agency of the state of domicile of the insurer that relate to accounting and financial matters of insurers; and

(b) Will express an opinion on whether the financial statements conform to the statutory accounting practices prescribed or otherwise permitted by that department or equivalent agency and will specify exceptions as appropriate.

(4) If an independent certified public accountant for the immediately preceding filed audited financial report of an insurer is dismissed or resigns, the insurer shall comply with all of the following:

(a) The insurer shall within 5 business days notify the commissioner of the dismissal or resignation.

(b) The insurer shall within 15 business days furnish the commissioner with a letter which clearly states that there was no disagreement required to be disclosed under this paragraph or which describes any disagreement between the insurer and the independent certified public accountant in the 24 months preceding the dismissal or resignation, which:

1. Was on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure; and

2. Would require the independent certified public accountant to make reference to the subject matter of the disagreement in connection with the opinion required under s. Ins 50.06. The requirement to provide a description applies regardless of whether the disagreement was resolved or whether the former independent certified public accountant was satisfied with the resolution.

(c) The insurer shall within 15 business days furnish the commissioner with a letter from the independent certified public accountant addressed to the insurer stating whether the independent certified public accountant agrees with the statements contained in the insurer's letter required under par. (b) and, if not, stating the reasons why not.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.08 Qualifications of independent certified public accountants.** (1) The commissioner may rule that an accountant or accounting firm is not qualified for purposes of expressing an opinion on the financial statements in the annual audited financial report required under this subchapter and prohibit insurers from retaining the accountant or an accounting firm, and require insurers to replace the accountant or accounting firm, if the commissioner finds there is cause, including, but not limited to, a finding that the accountant or accounting firm:

(a) Is not in good standing with the American institute of certified public accountants and in all states in which the accountant or accounting firm is, or is required to be, licensed to practice, or, for a Canadian or British company, that it is not a chartered accountant;

(b) Has not conformed to the standards of the accounting profession as contained in the code of professional ethics of the American institute of certified public accountants and rules and regulations and code of ethics and rules of professional conduct of the accounting examining board, or a similar code;

(c) Has been convicted of fraud, bribery, a violation of the Racketeer Influenced and Corrupt Organizations Act, 18 USC 1961 to 1968, or any dishonest conduct or practices under federal or state law;

(d) Has been found to have violated the insurance laws or rules of this state; or

(e) Has demonstrated a pattern or practice of failing to detect or disclose material information in financial reports.

(2) After December 31, 1994, no accounting firm partner or other person responsible for rendering a report required of an independent certified public accountant may act in that capacity for more than seven consecutive years. Following any period of service such a person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of 2 years. The commissioner may grant relief from the rotation requirement on the basis of unusual circumstances. Factors the commissioner may consider in determining if the relief should be granted include, but are not limited to:

(a) Number of partners, expertise of the partners or the number of insurance clients in the currently registered firm;

(b) Premium volume of the insurer; or

(c) Number of jurisdictions in which the insurer transacts business.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.09 Consolidated or combined audits.** An insurer may file audited consolidated or combined financial statements in lieu of separate annual audited financial statements required under this subchapter if the commissioner approves in writing and if the insurer is part of a group of insurers which utilizes a pooling or 100% reinsurance agreement that affects the sol-

veny and integrity of the insurer's reserves and the insurer cedes all of its direct and assumed business to the pool. If the commissioner permits a consolidated report under this section the report shall include a columnar consolidating or combining work sheet, as follows:

(1) Amounts shown on the consolidated or combined audited financial report shall be shown on the work sheet.

(2) Amounts for each insurer subject to this section shall be stated separately.

(3) Noninsurance operations may be shown on the work sheet on a combined or individual basis.

(4) Explanations of consolidating and eliminating entries shall be included.

(5) A reconciliation shall be included of any differences between the amounts shown in the individual insurer columns of the work sheet and comparable amounts shown on the annual statements of the insurers.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.10 Scope of examination and report of independent certified public accountant.** Financial statements furnished under s. Ins 50.06 shall be audited by an independent certified public accountant. The independent certified public accountant shall conduct the audit of the insurer's financial statements in accordance with generally accepted auditing standards. The independent certified public accountant may also give consideration to such other procedures illustrated in the financial condition examiner's handbook promulgated by the national association of insurance commissioners as the independent certified public accountant deems necessary. The commissioner may require that an independent certified public accountant conduct additional procedures or provide additional reports.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.11 Notification of adverse financial condition.** (1) An insurer shall require the independent certified public accountant to report, in writing and within 5 business days, to the board of directors of the insurer or its audit committee any determination by the independent certified public accountant that the insurer has materially misstated its financial condition as reported to the commissioner as of the balance sheet date currently under examination or that the insurer does not meet the minimum capital and surplus or compulsory surplus requirements.

(2) An insurer who receives a report required under sub. (1) shall forward a copy of the report to the commissioner within 5 business days of receipt of the report and shall provide the independent certified public accountant making the report with evidence that the report has been furnished to the commissioner.

(3) An independent certified public accountant shall furnish to the commissioner a copy of its report required under sub. (1) within 10 business days after it is furnished to the insurer under sub. (1) unless the independent certified public accountant receives evidence the insurer has provided it within the 10 business day period to the commissioner as required under sub. (2).

(4) An executive officer or director of an insurer which receives notice under sub. (1) shall report the notification in writing to the commissioner within 5 business days of the date the executive officer or director first acquires knowledge of the notification unless prior to that date the insurer complies with sub. (2).

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.12 Report of significant deficiencies in internal controls.** An insurer shall file with the commissioner within 60 days of the date an annual financial statement is filed, or is required under s. Ins 50.05 to be filed, a written report prepared by the independent certified public accountant describing any significant deficiencies in the insurer's internal control structure. SAS No. 60, Communication of Internal Control Structure Matters Noted in an Audit (AU Section 325 of the Professional Standards of the American Institute of Certified Public Accountants)



requires an accountant to communicate significant deficiencies (known as "reportable conditions") noted during a financial statement audit to the appropriate parties within an entity. An insurer is not required to file a report under this section if the independent certified public accountant does not identify significant deficiencies. An insurer shall promptly file with the commissioner a description of remedial actions taken or proposed to correct significant deficiencies, if the actions are not described in the independent certified public accountant's report.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.13 Accountant's letter of qualifications.** An accountant or accounting firm retained by an insurer to comply with this subchapter shall furnish the insurer, and the insurer shall obtain and include with the filing of the annual audited financial report required under s. Ins 50.05, a letter from the accountant or accounting firm stating:

(1) That the accountant or accounting firm is independent with respect to the insurer and conforms to the standards of his or her profession as contained in the code of professional ethics and pronouncements of the American institute of certified public accountants and the rules of professional conduct of the board of public accountancy of this state, or similar code.

(2) The background and experience in general, and the experience in audits of insurers of the staff assigned to the engagement and whether each is an independent certified public accountant. This subchapter does not prohibit the accountant or accounting firm from utilizing such staff as he or she deems appropriate where use is consistent with the standards prescribed by generally accepted auditing standards.

(3) That the accountant or accounting firm understands that the annual audited financial report and his or her opinion on the annual audited financial report will be filed in compliance with this chapter and that the commissioner will be relying on this information in the monitoring and regulation of the financial position of insurers.

(4) That the accountant or accounting firm consents to the requirements of s. Ins 50.15 and that the accountant or accounting firm consents and agrees to make available work papers for review by the commissioner.

(5) A representation that the accountant or accounting firm is properly licensed by an appropriate state licensing authority and is a member in good standing in the American institute of certified public accountants.

(6) A representation that the accountant or accounting firm is an independent certified public accounting firm and that there are no grounds for disqualification of the accountant or accounting firm under s. Ins 50.08.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.15 Availability and maintenance of CPA work papers.** (1) An insurer shall require the accountant or accounting firm which conducts an audit or other procedure under this subchapter to make available for review all work papers and any communications related to the audit or procedure between the insurer and the accountant or accounting firm at the offices of the insurer or at a reasonable place designated by the commissioner. The insurer shall require that the accountant retain the audit work papers and communications until the commissioner has filed a report on examination covering the period of the audit but no longer than seven years from the date of the audit report.

(2) The commissioner may photocopy work papers and retain the copies. All working papers and communications obtained by the commissioner under this section may be treated by the commissioner as confidential under s. 601.465, Stats.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.16 Exemptions.** (1) The commissioner may grant an exemption from compliance with this subchapter if the commissioner finds that compliance would constitute a financial or organizational hardship upon the insurer.

(2) An exemption may be granted at any time and from time to time for a specified period.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.17 Canadian and British companies.** (1) In the case of Canadian and British insurers, for the purpose of this subchapter the annual audited financial report shall be defined as the annual statement of total business on the form filed by the insurers with their domiciliary supervisory authority duly audited by an independent chartered accountant.

(2) For Canadian and British insurers, the letter required in s. Ins 50.07 shall state that the accountant is aware of the requirements relating to the annual audited statement filed with the commissioner under s. Ins 50.05 and shall affirm that the opinion expressed is in conformity with those requirements.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

## Subchapter II — Annual Financial Statements

**Ins 50.20 Insurers to file annual financial statements.** (1) An insurer shall file an annual financial statement with the commissioner. Except as otherwise required by law, rule, order or instruction of the commissioner, an insurer shall file the annual financial statement:

(a) On the national association of insurance commissioners annual statement blank appropriate for the lines of business the insurer is authorized to write, except an insurer licensed under ch. 612, Stats., may file on the town mutual annual statement blank prescribed by the commissioner; and

(b) Prepared in accordance with the national association of insurance commissioners annual statement instructions and the accounting practices or procedures prescribed or permitted by the applicable national association of insurance commissioners accounting practices and procedures manual except an insurer licensed under ch. 612, Stats., shall prepare the statement as prescribed by the commissioner.

(2) Insurers shall file the annual statement required under sub. (1) by March 1, except insurers organized under ch. 612, Stats., shall file by February 15 and the commissioner may prescribe a different date for individual insurers.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.25 Insurers to file with the national association of insurance commissioners.** (1) This section applies to all licensed insurers, except:

(a) Those categories of insurers whose annual or quarterly statements the national association of insurance commissioners does not collect on the date filing is required, unless otherwise required by the commissioner;

(b) An insurer organized under ch. 612, Stats., unless otherwise ordered by the commissioner; and

(c) Insurers the commissioner exempts after finding an exemption is in the public interest.

(2) An insurer shall annually on or before March 1 file with the national association of insurance commissioners a copy of the annual statement it is required to file under s. Ins 50.20 and any supplemental information which the commissioner requires to be included with the annual statement. The insurer shall include with the copy a signed jurat page and actuarial certificate and shall also file copies of any subsequent amendments or addendums filed with the commissioner with the national association of insurance commissioners.

(3) An insurer shall file a quarterly financial statement with and in the form prescribed by the national association of insurance commissioners within 45 days of the end of each quarter.

(4) An insurer shall file the information required under sub. (2) or (3) in the form of media prescribed by the national association of insurance commissioners.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

**Ins 50.30 Actuarial opinion required.** An insurer shall file with the annual financial statement required under s. Ins 50.20 a statement of actuarial opinion from a qualified actuary in accordance with the national association of insurance commissioners annual statement instructions.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

### Subchapter III — Examinations

**Ins 50.50 Examinations.** (1) The commissioner may determine the nature, scope and frequency of examinations under s. 601.43, Stats., except at a minimum every insurer licensed in this state shall be examined every 5 years, unless it is a limited service health organization, town mutual, a gift annuity licensee under ch. 615, Stats., motor club, warranty plan, or an insurer exempted under s. 610.49, 1981 stats.

(2) Factors the commissioner may consider in determining the scheduling of an examination include, but are not limited to, results of financial statement analyses and ratios, changes in management or ownership, actuarial opinions, reports of independent certified public accountants, other criteria in the Examiners' Handbook adopted by the national association of insurance commissioners, and the priority of conducting an examination of an insurer relative to other insurers.

(3) The commissioner may determine the nature and scope of an examination. An examination may, but need not, cover all aspects of the insurer's assets, condition, affairs and operations, and may involve or be supplemented by review of audit procedures performed by accountants. Examinations may include, but are not limited to, the following types of examinations:

(a) Compliance examinations which are a general review of the insurer's corporate affairs and insurance operations to determine compliance with chs. 600 to 646, Stats. A compliance examination may consist of review of an accountant's work papers or be supplemented by such a review.

(b) Targeted examinations are limited to a review of specified areas. Areas that may be targeted may include, but are not limited to, life reserve valuations, claims analyses, organizational and capital changes, loss reserves or market conduct.

(c) Comprehensive examinations which are complete examinations of the condition and affairs of the insurer.

(4) After the commissioner issues an adopted examination report, the insurer examined shall promptly file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

(5) The office of the commissioner of insurance, under s. 601.465, Stats., may refuse to disclose and prevent any person from disclosing, in response to a request for production, deposition, subpoena, or otherwise, information obtained from the national association of insurance commissioners or another insurance department under pledge of confidentiality or for the purpose of conducting an investigation or examination or obtained, produced or created in the course of an inquiry under s. 601.42, Stats., or examination under s. 601.43, Stats. This privilege applies to information obtained, produced or created before or after the effective date of s. 601.465, Stats., and regardless of whether an inquiry, investigation or examination has been concluded, except it does not apply to a document which is an adopted examination report. An adopted examination report is available for public inspection as required under s. 601.44 (6), Stats. The office or the commissioner may disclose the content of an examination report,

preliminary examination report or results, or any matter relating a report or the results of an examination to further legal or regulatory action, or to the insurance department of any other state or country or to law enforcement officials of this or any other state or agency of the federal government, so long as the department, agency or office agrees in writing to hold it confidential.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

### Ins 50.55 Examination of foreign and alien insurers.

(1) The commissioner may accept, under s. Ins 50.50, an examination report on a licensed foreign or alien insurer which is prepared by the insurance department for the insurer's state of domicile until December 31, 1993. After December 31, 1993, an examination report from the insurance department of the insurer's state of domicile may only be accepted if:

(a) The insurance department is at the time of the examination accredited under the National Association of Insurance Commissioners' Financial Regulation Standards and Accreditation Program; or

(b) The examination is performed under the supervision of an accredited insurance department or with the participation of one or more examiners who are employed by an accredited state insurance department and who, after a review of the examination work papers and report, state under oath that the examination was performed in a manner consistent with the standards and procedures required by their insurance department.

(2) A foreign or alien insurer shall file written notice with the commissioner if it has not received an examination call for an examination which will be acceptable under this section for the determination of the financial condition of the insurer within 4 years after the date for which the last examination of the insurer examined the financial condition of the insurer.

**History:** Cr. Register, July, 1993, No. 451, eff. 8-1-93.

### Subchapter IV — Actuarial Opinion

**Ins 50.60 Definitions.** In this chapter, "qualified actuary" means a member in good standing of the American academy of actuaries unless disqualified by a standard or determination of the commissioner.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

**Ins 50.65 Actuarial opinion required.** (1) For each year ending on or after December 31, 1996, every life insurance company doing business in this state shall submit to the commissioner, with its annual statement due by March 1 of the following year, an opinion by a qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner satisfy all of the following:

(a) They are computed appropriately.

(b) They are based on assumptions that satisfy contract provisions.

(c) They are consistent with prior reported amounts.

(d) They comply with the applicable laws of this state.

(2) The opinion under sub. (1) shall be in the form and contain the information required by the commissioner.

(3) (a) Every life insurance company not exempted under s. Ins 50.76 shall include with the opinion required under sub. (1) the opinion of the qualified actuary as to whether the reserves and related actuarial items held in support of the policies and contracts specified by the commissioner, when considered in light of the assets held by the company with respect to the reserves and related actuarial items, including but not limited to, the investment earnings on the assets and the considerations anticipated to be received and retained under the policies and contracts, make adequate provision for the company's obligations under the policies and contracts, including but not limited to, the benefits under and expenses associated with the policies and contracts. The commissioner may allow a transition period for an insurance company to establish any higher reserves that the qualified actuary determines are

necessary to make adequate provision for the company's obligations under the policies and contracts.

(b) An insurance company that is required to submit an opinion under par. (a) shall have prepared by the qualified actuary who renders the opinion and memorandum in support of the opinion under par. (a). The memorandum shall be in the form, and provide the information, required by the form specified by the commissioner. The insurance company shall provide the memorandum to the commissioner, at the commissioner's request, for the commissioner's examination. After examination, the commissioner may return the memorandum to the insurance company.

(c) If an insurance company fails to provide a supporting memorandum to the commissioner upon request within the period specified, or if the commissioner determines that the supporting memorandum provided by an insurance company is otherwise unacceptable, the commissioner may retain a qualified actuary at the expense of the insurance company to review the opinion required under par. (a) and the basis for the opinion and to prepare supporting memorandum as the commissioner requires.

(4) The following provisions apply to an opinion required under sub. (1) or (2):

(a) The opinion shall apply to all business in force, including individual and group health insurance plans, in form and substance acceptable to the commissioner.

(b) The opinion shall be based on standards adopted from time to time by the actuarial standards board established by the American academy of actuaries and on such additional standards as the commissioner may prescribe.

(c) In the case of an opinion required to be submitted by a foreign or alien company, the commissioner may accept the opinion filed by that company with the insurance supervisory official of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

(5) An insurer which violates this chapter or an insurer or actuary which submits an opinion or memorandum which includes a misrepresentation is subject to the penalties specified under ch. 601, Stats.

(6) (a) Any memorandum in support of, and any other material provided by an insurance company to the commissioner in connection with, an opinion required under this section is subject [to] s. 601.465, Stats.

(b) The commissioner may release any such memorandum or other material with the written consent of the insurance company, or to the American academy of actuaries upon its request if the memorandum or other material is required for professional disciplinary proceedings and if the request sets forth procedures that are satisfactory to the commissioner for preserving the confidentiality of the memorandum or other material.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

**Ins 50.67 Reserves.** (1) An insurance company's aggregate reserves for all policies, contracts and benefits may not be less than the aggregate reserves determined by a qualified actuary in an opinion under this chapter to be necessary to make adequate provision for the company's obligations under the policies and contracts.

(2) For the purpose of s. 623.06 (6), Stats., holding any additional reserves that a qualified actuary, in an opinion under this chapter determined to be necessary to make adequate provision for the company's obligations under the policies and contracts shall not be considered the adoption of a higher standard of valuation.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

**Ins 50.68 Reliance on actuary opinion.** An actuarial opinion which is issued by a qualified actuary and required under this subchapter and subch. V is solely for the benefit of the insurer

which is the subject of the opinion, the commissioner and the office. It is not for the benefit of any other person and is therefore not to be relied upon by any other person unless reliance is induced by fraud or wilful misconduct.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

## Subchapter V — Actuarial Opinion and Memorandum Regulation

**Ins 50.70 Purpose.** The purpose of this rule is to prescribe:

(1) Guidelines and standards for statements of actuarial opinion which are to be submitted in accordance with subch. IV and ch. 623, Stats., and for memoranda in support of such an opinion.

(2) Guidelines and standards for statements of actuarial opinion which are to be submitted when a company is exempt from s. Ins 50.65 (3); and

(3) Rules applicable to the appointment of an appointed actuary.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

**Ins 50.71 Authority.** This rule is issued pursuant to the authority vested in the commissioner under ss. 601.42, 601.43, 601.465, Stats., and ch. 623, Stats. This rule will take effect for annual statements for the year 1996.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

**Ins 50.72 Scope.** (1) This subchapter shall apply to all life insurance companies and fraternal benefit societies doing business in this state and to all life insurance companies and fraternal benefit societies which are authorized to reinsure life insurance, annuities or accident and health insurance business in this state. This subchapter shall be applicable to all annual statements filed with the office of the commissioner of insurance after the effective date of this subchapter. Except with respect to companies which are exempted pursuant to s. Ins 50.76, a statement of opinion on the adequacy of the reserves and related actuarial items based on an asset adequacy analysis in accordance with s. Ins 50.78, and a memorandum in support thereof in accordance with s. Ins 50.79, shall be required each year. Any company so exempted must file a statement of actuarial opinion pursuant to s. Ins 50.77.

(2) Notwithstanding sub. (1), the commissioner may require any company otherwise exempt pursuant to this subchapter to submit a statement of actuarial opinion and to prepare a memorandum in support thereof in accordance with ss. Ins 50.78 and 50.79 if, in the opinion of the commissioner, an asset adequacy analysis is necessary with respect to the company.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

**Ins 50.73 Definitions.** (1) "Actuarial opinion" means:

(a) With respect to s. Ins 50.78, 50.79 or 50.80, the opinion of an appointed actuary regarding the adequacy of the reserves and related actuarial items based on an asset adequacy test in accordance with s. Ins 50.78 and with presently accepted actuarial standards;

(b) With respect to s. Ins 50.77, the opinion of an appointed actuary regarding the calculation of reserves and related items, in accordance with s. Ins 50.77 and with those presently accepted actuarial standards which specifically relate to this opinion.

(2) "Actuarial standards board" is the board established by the American academy of actuaries to develop and promulgate standards of actuarial practice.

(3) "Annual statement" means that statement required by s. Ins 50.20 to be filed by the company annually.

(4) "Appointed actuary" means any individual who is appointed or retained in accordance with the requirements set forth in s. Ins 50.75 (3) to provide the actuarial opinion and supporting memorandum as required by subch. IV and ch. 623, Stats.



(5) "Asset adequacy analysis" means an analysis that meets the standards and other requirements referred to in s. Ins 50.75 (4). It may take many forms, including, but not limited to, cash flow testing, sensitivity testing or applications of risk theory.

(6) "Commissioner" means the commissioner of insurance of this state.

(7) "Company" means a life insurance company, fraternal benefit society or reinsurer subject to the provisions of [this] subchapter.

(8) "Non-investment grade bonds" are those designated as classes 3, 4, 5 or 6 by the National Association of Insurance Commissioner's securities valuation office.

(9) "Qualified Actuary" means any individual who meets the requirements set forth in s. Ins 50.75 (2).

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

**Ins 50.75 General requirements.** (1) SUBMISSION OF STATEMENT OF ACTUARIAL OPINION. (a) There is to be included on or attached to Page 1 of the annual statement for each year beginning with 1996 the statement of an appointed actuary, entitled "Statement of Actuarial Opinion," setting forth an opinion relating to reserves and related actuarial items held in support of policies and contracts, in accordance with s. Ins 50.78; provided, however, that any company exempted pursuant to s. Ins 50.76 from submitting a statement of actuarial opinion in accordance with s. Ins 50.78 shall include on or attach to Page 1 of the annual statement a statement of actuarial opinion rendered by an appointed actuary in accordance with s. Ins 50.77.

(b) If in the previous year a company provided a statement of actuarial opinion in accordance with s. Ins 50.77, and in the current year fails the exemption criteria of s. Ins 50.76 (3) (a), (b) or (c) to again provide an actuarial opinion in accordance with s. Ins 50.77, the statement of actuarial opinion in accordance with s. Ins 50.78 shall not be required until August 1 following the date of the annual statement. In this instance, the company shall provide a statement of actuarial opinion in accordance with s. Ins 50.77 with appropriate qualification noting the intent to subsequently provide a statement of actuarial opinion in accordance with s. Ins 50.78.

(c) In the case of a statement of actuarial opinion required to be submitted by a foreign or alien company, the commissioner may accept the statement of actuarial opinion filed by such company with the insurance supervisory regulator of another state if the commissioner determines that the opinion reasonably meets the requirements applicable to a company domiciled in this state.

(d) Upon written request by the company, the commissioner may grant an extension of the date for submission of the statement of actuarial opinion.

(2) QUALIFIED ACTUARY. A qualified actuary is an individual who:

(a) Is a member in good standing of the American academy of actuaries;

(b) Is qualified to sign statements of actuarial opinion for life and health insurance company annual statements in accordance with the American academy of actuaries qualification standards for actuaries signing such statements;

(c) Is familiar with the valuation requirements applicable to life and health insurance companies; and

(d) Has not been found by the commissioner (or if so found has subsequently been reinstated as a qualified actuary), following appropriate notice and hearing to have:

1. Violated any provision of, or any obligation imposed by, an insurance law or other law in the course of his or her dealings as a qualified actuary;

2. Been found guilty of fraudulent or dishonest practices;

3. Demonstrated his or her incompetency, lack of cooperation, or untrustworthiness to act as a qualified actuary;

4. Submitted to the commissioner during the past 5 years, pursuant to this subchapter, an actuarial opinion or memorandum that the commissioner rejected because it did not meet the provisions of this subchapter including standards set by the actuarial standards board; or

5. Resigned or been removed as an actuary within the past 5 years as a result of acts or omissions indicated in any adverse report on examination or as a result of failure to adhere to generally acceptable actuarial standards; and

(e) Has not failed to notify the commissioner of any action taken by any commissioner of any other state similar to that under par. (d).

(3) APPOINTED ACTUARY. An "appointed actuary" is a qualified actuary who is appointed or retained to prepare the statement of actuarial opinion required by this subchapter; either directly by or by the authority of the board of directors through an executive officer of the company. The company shall give the commissioner timely written notice of the name, title (and, in the case of a consulting actuary, the name of the firm) and manner of appointment or retention of each person appointed or retained by the company as an appointed actuary and shall state in such notice that the person meets the requirements set forth in sub. (2). Once notice is furnished, no further notice is required with respect to this person, provided that the company shall give the commissioner timely written notice in the event the actuary ceases to be appointed or retained as an appointed actuary or to meet the requirements set forth in sub. (2). If any person appointed or retained as an appointed actuary replaces a previously appointed actuary, the notice shall so state and give the reasons for replacement.

(4) STANDARDS FOR ASSET ADEQUACY ANALYSIS. The asset adequacy analysis required by this subchapter:

(a) Shall conform to the standards of practice as promulgated from time to time by the actuarial standards board and on any additional standards under this subchapter, which standards are to form the basis of the statement of actuarial opinion in accordance with s. Ins 50.78; and

(b) Shall be based on methods of analysis as are deemed appropriate for such purposes by the actuarial standards board.

(5) LIABILITIES TO BE COVERED. (a) Under authority of ch. 623, Stats., and subch. IV, the statement of actuarial opinion shall apply to all in force business on the statement date regardless of when or where issued. This includes reserves of Exhibits 8, 9 and 10, and claim liabilities in Exhibit 11, Part I and equivalent items in the separate account statement or statements.

(b) If the appointed actuary determines as the result of asset adequacy analysis that a reserve should be held in addition to the aggregate reserve held by the company and calculated in accordance with methods set forth in s. 623.06 (3), (3m), (4m) and (7), Stats., and s. Ins 3.17, the company shall establish such additional reserve.

(c) For years ending prior to December 31, 1998, the company may, in lieu of establishing the full amount of the additional reserve in the annual statement for that year, set up an additional reserve in an amount not less than the following:

1. December 31, 1996—The additional reserve divided by 3.

2. December 31, 1997—Two times the additional reserve divided by 3.

(d) Additional reserves established under par. (b) or (c) and deemed not necessary in subsequent years may be released. Any amounts released must be disclosed in the actuarial opinion for the applicable year. The release of such reserves would not be deemed an adoption of a lower standard of valuation.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

**Ins 50.76 Required opinions.** (1) GENERAL. In accordance with subch. IV and ch. 623, Stats., every company doing business in this state shall annually submit the opinion of an appointed actuary as provided for by this subchapter. The type of

opinion submitted shall be determined by the provisions set forth in this section and shall be in accordance with the applicable provisions in this subchapter.

(2) **COMPANY CATEGORIES.** For purposes of this subchapter, companies shall be classified as follows based on the admitted assets as of the end of the calendar year for which the actuarial opinion is applicable:

(a) Category A shall consist of those companies whose admitted assets do not exceed \$20 million;

(b) Category B shall consist of those companies whose admitted assets exceed \$20 million but do not exceed \$100 million;

(c) Category C shall consist of those companies whose admitted assets exceed \$100 million but do not exceed \$500 million; and

(d) Category D shall consist of those companies whose admitted assets exceed \$500 million.

(3) **EXEMPTION ELIGIBILITY TEST.** (a) Any Category A company that, for any year beginning with 1996, meets all of the following criteria shall be eligible for exemption from submission of a statement of actuarial opinion in accordance with s. Ins 50.78 for the year in which these criteria are met. The ratios in subds. 1., 2. and 3. shall be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

1. The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to .10.

2. The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than .30.

3. The ratio of the book value of the non-investment grade bonds to the sum of capital and surplus is less than .50.

4. The examiner team for the national association of insurance commissioners has not designated the company as a first priority company in any of the 2 calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the 2 calendar years preceding the calendar year for which the actuarial opinion is applicable, or the company has resolved the first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the national association of insurance commissioners life and health actuarial task force and the national association of insurance commissioners staff and support office.

(b) Any Category B company that, for any year beginning with the 1996, meets all of the following criteria shall be eligible for exemption from submission of a statement of actuarial opinion in accordance with s. Ins 50.78 for the year in which the criteria are met. The ratios in subds. 1., 2. and 3 below shall be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

1. The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to .07.

2. The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than .40.

3. The ratio of the book value of the non-investment grade bonds to the sum of capital and surplus is less than .50.

4. The examiner team for the national association of insurance commissioners has not designated the company as a first priority company in any of the 2 calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the 2 calendar years preceding the calendar year for which the actuarial opinion is applicable, or the company has resolved the first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the national association of insurance commissioners life and health actuarial task force and the national association of insurance commissioners staff and support office.

(c) Any Category A or Category B company that meets all of the criteria set forth in par. (a) or (b), whichever is applicable, is exempted from submission of a statement of actuarial opinion in accordance with s. Ins 50.78 unless the commissioner specifically indicates to the company that the exemption is not to be taken.

(d) Any Category A or Category B company that, for any year beginning with 1996, is not exempted under par. (c) shall be required to submit a statement of actuarial opinion in accordance with s. Ins 50.78 for the year for which it is not exempt.

(e) Any Category C company that, after submitting an opinion in accordance with s. Ins 50.78, meets all of the following criteria shall not be required, unless required in accordance with par. (f), to submit a statement of actuarial opinion in accordance with s. Ins 50.78 more frequently than every third year. Any Category C company which fails to meet all of the following criteria for any year shall submit a statement of actuarial opinion in accordance with s. Ins 50.78 for that year. The ratios in subds. 1., 2. and 3. shall be calculated based on amounts as of the end of the calendar year for which the actuarial opinion is applicable.

1. The ratio of the sum of capital and surplus to the sum of cash and invested assets is at least equal to .05.

2. The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets is less than .50.

3. The ratio of the book value of the non-investment grade bonds to the sum of the capital and surplus is less than .50.

4. The examiner team for the national association of insurance commissioners has not designated the company as a first priority company in any of the 2 calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the 2 calendar years preceding the calendar year for which the actuarial opinion is applicable, or the company has resolved the first or second priority status to the satisfaction of the commissioner of the state of domicile and the commissioner has so notified the chair of the national association of insurance commissioners life and health actuarial task force and the national association of insurance commissioners staff and support office.

(f) Any company which is not required by this section to submit a statement of actuarial opinion in accordance with s. Ins 50.78 for any year shall submit a statement of actuarial opinion in accordance with s. Ins 50.77 for that year unless the commissioner requires a statement of actuarial opinion in accordance with s. Ins 50.78.

(4) **LARGE COMPANIES.** Every Category D company shall submit a statement of actuarial opinion in accordance with s. Ins 50.78 for each year beginning with 1996.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

## **Ins 50.77 Statement of actuarial opinion not including an asset adequacy analysis. (1) GENERAL DESCRIPTION.**

The statement of actuarial opinion required by this section shall consist of a paragraph identifying the appointed actuary and his or her qualifications; a regulatory authority paragraph stating that the company is exempt pursuant to this subchapter from submitting a statement of actuarial opinion based on an asset adequacy analysis and that the opinion, which is not based on an asset adequacy analysis, is rendered in accordance with s. Ins 50.77; a scope paragraph identifying the subjects on which the opinion is to be expressed and describing the scope of the appointed actuary's work; and an opinion paragraph expressing the appointed actuary's opinion as required by ch. 623, Stats., and subch. IV.

(2) **RECOMMENDED LANGUAGE.** The following language provided is that which in typical circumstances would be included in a statement of actuarial opinion in accordance with this section. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary shall use language which clearly expresses his or her professional judgment.



ment. However, in any event the opinion shall retain all pertinent aspects of the language provided in this section.

(a) The opening paragraph should indicate the appointed actuary's relationship to the company:

1. For a company actuary, the opening paragraph of the actuarial opinion shall read as follows: "I, [name of actuary], am [title] of [name of company] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the Board of Directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health companies"

2. For a consulting actuary, the opening paragraph of the actuarial opinion should contain a sentence such as: "I, [name and title of actuary], a member of the American Academy of Actuaries, am associated with the firm of [insert name of consulting firm]. I have been appointed by, or by the authority of, the Board of Directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

(b) The regulatory authority paragraph should include a statement such as the following: "Said company is exempt pursuant to rule [insert designation] of the [name of state] Insurance Department from submitting a statement of actuarial opinion based on an asset adequacy analysis. This opinion, which is not based on an asset adequacy analysis, is rendered in accordance with s. Ins 50.77."

(c) The scope paragraph should contain a sentence such as the following: "I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, [ ]."

1. The scope paragraph should list items and amounts with respect to which the appointed actuary is expressing an opinion. The list should include but not be necessarily limited to:

- a. Aggregate reserve and deposit funds for policies and contracts included in Exhibit 8;
- b. Aggregate reserve and deposit funds for policies and contracts included in Exhibit 9;
- c. Deposit funds, premiums, dividend and coupon accumulations and supplementary contracts not involving life contingencies included in Exhibit 10; and
- d. Policy and contract claims—liability end of current year included in Exhibit 11, Part I.

(d) If the appointed actuary has examined the underlying records, the scope paragraph should also include the following: "My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic records and such tests of the actuarial calculations as I considered necessary."

(e) 1. If the appointed actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force prepared by the company or a third party, the scope paragraph should include a sentence such as one of the following:

a. "I have relied upon listings and summaries of policies and contracts and other liabilities in force prepared by [name and title of company officer certifying in force records] as certified in the attached statement. (See accompanying affidavit by a company officer.) In other respects my examination included review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."; or

b. "I have relied upon [name of accounting firm] for the substantial accuracy of the in force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary."

2. The statement of a person certifying information referred to in subd. 1. shall follow the form prescribed by par. (j).

(f) The opinion paragraph should include the following: "In my opinion the amounts carried in the balance sheet on account of the actuarial items identified above:

1. Are computed in accordance with those presently accepted actuarial standards which specifically relate to the opinion required under this section;

2. Are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

3. Meet the requirements of the insurance law and rules of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed.

4. Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year—end with any exceptions as noted below; and

5. Include provision for all actuarial reserves and related statement items which ought to be established. The actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate Compliance Guidelines as promulgated by the actuarial standards board, which guidelines form the basis of this statement of opinion."

(g) The concluding paragraph of the opinion shall document the eligibility for the company to provide an opinion as provided by this section. It shall include the following: "This opinion is provided in accordance with s. Ins 50.77. As such it does not include an opinion regarding the adequacy of reserves and related actuarial items when considered in light of the assets which support them. Eligibility for s. Ins 50.77 is confirmed as follows:

1. The ratio of the sum of capital and surplus to the sum of cash and invested assets is [insert amount], which equals or exceeds the applicable criterion based on the admitted assets of the company.

2. The ratio of the sum of the reserves and liabilities for annuities and deposits to the total admitted assets [insert amount], which is less than the applicable criteria based on the admitted assets of the company.

3. The ratio of the book value of the non-investment grade bonds to the sum of capital and surplus is [insert amount], which is less than the applicable criteria of .50.

4. To my knowledge, the NAIC Examiner Team has not designated the company as a first priority company in any of the two calendar years preceding the calendar year for which the actuarial opinion is applicable, or a second priority company in each of the two calendar years preceding the calendar year for which the actuarial opinion is applicable or the company has resolved the first or second priority status to the satisfaction of the commissioner of the state of domicile.

5. To my knowledge there is not a specific request from any commissioner requiring an asset adequacy analysis opinion.

Signature of Appointed Actuary

Address of Appointed Actuary

Telephone number of appointed actuary"

(h) 1. If there has been any change in the actuarial assumptions from those previously employed, that change should be described

in the annual statement or in a paragraph of the statement of actuarial opinion, and the reference in sub. (2) (f) 4. to consistency should read as follows:

"... with the exception of the change described on page [ ] of the annual statement (or in the preceding paragraph)."

2. The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this paragraph.

(i) If the appointed actuary is unable to form an opinion, he or she shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, he or she shall issue an adverse or qualified actuarial opinion explicitly stating each and all reasons for such opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

(j) If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force, there should be attached to the opinion, the statement of a company officer or accounting firm who prepared such underlying data similar to the following: "I [name of officer], [title] of [name and address of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, [ ], prepared for and submitted to [name of appointed actuary], were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

Signature of the Officer of the Company or Accounting Firm  
Address of the Officer of the Company or Accounting Firm  
Telephone Number of the Officer of the Company or  
Accounting Firm"

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

**Ins 50.78 Statement of actuarial opinion based on an asset adequacy analysis.** (1) **GENERAL DESCRIPTION.** The statement of actuarial opinion submitted in accordance with this section shall consist of:

(a) A paragraph identifying the appointed actuary and his or her qualifications;

(b) A scope paragraph identifying the subjects on which an opinion is to be expressed and describing the scope of the appointed actuary's work, including a tabulation delineating the reserves and related actuarial items which have been analyzed for asset adequacy and the method of analysis, and identifying the reserves and related actuarial items covered by the opinion which have not been so analyzed;

(c) A reliance paragraph describing those areas, if any, where the appointed actuary has deferred to other experts in developing data, procedures or assumptions, including anticipated cash flows from currently owned assets and variation in cash flows according to economic scenarios, supported by a statement of each such expert in the form prescribed by sub. (5); and

(d) An opinion paragraph expressing the appointed actuary's opinion with respect to the adequacy of the supporting assets to mature the liabilities.

(e) One or more additional paragraphs will be needed in individual company cases as follows:

1. If the appointed actuary considers it necessary to state a qualification of his or her opinion;

2. If the appointed actuary must disclose the method of aggregation for reserves of different products or lines of business for asset adequacy analysis;

3. If the appointed actuary must disclose reliance upon any portion of the assets supporting the Asset Valuation Reserve (AVR), Interest Maintenance Reserve (IMR) or other mandatory or voluntary statement of reserves for asset adequacy analysis.

4. If the appointed actuary must disclose an inconsistency in the method of analysis or basis of asset allocation used at the prior opinion date with that used for this opinion.

5. If the appointed actuary must disclose whether additional reserves of the prior opinion date are released as of this opinion date, and the extent of the release.

6. If the appointed actuary chooses to add a paragraph briefly describing the assumptions which form the basis for the actuarial opinion.

(2) **RECOMMENDED LANGUAGE.** The following paragraphs are to be included in the statement of actuarial opinion in accordance with this section. The language provided in this subsection is that which in typical circumstances should be included in a statement of actuarial opinion. The language may be modified as needed to meet the circumstances of a particular case, but the appointed actuary shall use language which clearly expresses his or her professional judgment. However, in any event the opinion shall retain all pertinent aspects of the language provided in this section.

(a) The opening paragraph should generally indicate the appointed actuary's relationship to the company and his or her qualifications to sign the opinion.

1. For a company actuary, the opening paragraph of the actuarial opinion should read as follows: "I, [name], am [title] of [insurance company name] and a member of the American Academy of Actuaries. I was appointed by, or by the authority of, the Board of Directors of said insurer to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

2. For a consulting actuary, the opening paragraph should contain a sentence such as: "I, [name], a member of the American Academy of Actuaries, am associated with the firm of [name of consulting firm]. I have been appointed by, or by the authority of, the Board of Directors of [name of company] to render this opinion as stated in the letter to the commissioner dated [insert date]. I meet the Academy qualification standards for rendering the opinion and am familiar with the valuation requirements applicable to life and health insurance companies."

(b) The scope paragraph should include a statement such as the following: "I have examined the actuarial assumptions and actuarial methods used in determining reserves and related actuarial items listed below, as shown in the annual statement of the company, as prepared for filing with state regulatory officials, as of December 31, 19[ ]. Tabulated below are those reserves and related actuarial items which have been subjected to asset adequacy analysis.

Asset Adequacy Tested Amounts			Reserves and Liabilities			
Statement Item		Formula Reserves (1)	Additional Actuarial Reserves (2)	Analysis Method	Other Amount (3)	Total Amount (1)(2)(3)(4)
Exhibit 8						
A.	Life Insurance					
B.	Annuities					
C.	Supplementary Contracts Involving Life Contingencies					
D.	Accidental Death Benefit					
E.	Disability—Active					
F.	Disability—Disabled					
G.	Miscellaneous					
	Total (Exhibit 8 Item 1, Page 3)					
Exhibit 9						
A.	Active Life Reserve					
B.	Claim Reserve					
	Total (Exhibit 9 Item 2, Page 3)					
Exhibit 10						
1	Premiums and Other Deposit Funds					
1.1	Policyholder Premium (Page 3, Line 10.1)					
1.2	Guaranteed Interest Contracts (Page 3, Line 10.2)					
1.3	Other Contract Deposit Funds (Page 3, Line 10.3)					
2	Supplementary Contracts Not Involving Life Contingencies (Page 3, Line 3)					
3	Dividend and Coupon Accumulations (Page 3, Line 5)					
	Total Exhibit 10					
Exhibit 11 Part 1						
1	Life (Page 3, Line 4.1)					
2	Health (Page 3, Line 4.2)					
	Total Exhibit 11, Part 1					
Separate Accounts						
	(Page 3, Line 27)					
TOTAL RESERVES						

IMR (Page _____ Line _____)	
AVR (Page _____ Line _____)	

(bg) The tabulation in the scope paragraph required under par. (b) shall conform to the following:

1. The additional actuarial reserves are the reserves established under s. Ins 50.75 (5) (b) or (c).
2. The appointed actuary should indicate the method of analysis, determined in accordance with the standards for asset adequacy analysis referred to in s. Ins 50.75 (4), by means of symbols which should be defined in footnotes to the table.
3. The AVR shall be the allocated amount.

(c) If the appointed actuary has relied on other experts to develop certain portions of the analysis, the reliance paragraph should include a statement such as the following:

1. “I have relied on [name], [title] for [insert description of a portion relied upon such as anticipated cash flows from currently owned assets, including variations in cash flows according to economic scenarios] and, as certified in the attached statement,“

2. “I have relied on personnel as cited in the supporting memorandum for certain critical aspects of the analysis in reference to the accompanying statement.”

(cg) A statement of reliance on other experts shall be accompanied by a statement by each of such experts in the form prescribed by sub. (5).

(d) If the appointed actuary has examined the underlying asset and liability records, the reliance paragraph should also include



the following: "My examination included such review of the actuarial assumptions and actuarial methods and of the underlying basic asset and liability records and such tests of the actuarial calculations as I considered necessary."

(e) If the appointed actuary has not examined the underlying records, but has relied upon listings and summaries of policies in force or asset records prepared by the company or a third party or both, the reliance paragraph should include a sentence such as:

1. "I have relied upon listings and summaries [of policies and contracts, of asset records] prepared by [name and title of company officer certifying in-force records] as certified in the attached statement. In other respects my examination included such review of the actuarial assumptions and actuarial methods and such tests of the actuarial calculations as I considered necessary." or

2. "I have relied upon [name of accounting firm] for the substantial accuracy of the in-force records inventory and information concerning other liabilities, as certified in the attached statement. In other respects my examination included review of the actuarial assumptions and actuarial methods and tests of the actuarial calculations as I considered necessary."

(eg) A section described in par. (e) shall be accompanied by a statement by each person relied upon of the form prescribed by sub. (5).

(f) The opinion paragraph should include all of the following:

1. "In my opinion the reserves and related actuarial values concerning the statement items identified above:

a. Are computed in accordance with presently accepted actuarial standards consistently applied and are fairly stated, in accordance with sound actuarial principles;

b. Are based on actuarial assumptions which produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions;

c. Meet the requirements of the insurance law and rules of the state of [state of domicile] and are at least as great as the minimum aggregate amounts required by the state in which this statement is filed.

d. Are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end (with any exceptions noted below);

e. Include provision for all actuarial reserves and related statement items which ought to be established.

The reserves and related items, when considered in light of the assets held by the company with respect to such reserves and related actuarial items including, but not limited to, the investment earnings on such assets, and the considerations anticipated to be received and retained under such policies and contracts, make adequate provision, according to presently accepted actuarial standards of practice, for the anticipated cash flows required by the contractual obligations and related expenses of the company.

The actuarial methods, considerations and analyses used in forming my opinion conform to the appropriate Standards of Practice as promulgated by the actuarial standards board, which standards form the basis of this statement of opinion."

2. The appropriate one of the following 2 paragraphs:

a. This opinion is updated annually as required by statute. To the best of my knowledge, there have been no material changes from the applicable date of the annual statement to the date of the rendering of this opinion which should be considered in reviewing this opinion." or

b. "The following material change(s) which occurred between the date of the statement for which this opinion is applicable and the date of this opinion should be considered in reviewing this opinion: (Describe the change or changes.)"

3. "The impact of unanticipated events subsequent to the date of this opinion is beyond the scope of this opinion. The analysis of asset adequacy portion of this opinion should be viewed recognizing that the company's future experience may not follow all the assumptions used in the analysis.

Signature of Appointed Actuary

Address of Appointed Actuary

Telephone Number of Appointed Actuary

(3) ASSUMPTIONS FOR NEW ISSUES. The adoption for new issues or new claims or other new liabilities of an actuarial assumption which differs from a corresponding assumption used for prior new issues or new claims or other new liabilities is not a change in actuarial assumptions within the meaning of this section.

(4) ADVERSE OPINIONS. If the appointed actuary is unable to form an opinion, then he or she shall refuse to issue a statement of actuarial opinion. If the appointed actuary's opinion is adverse or qualified, then he or she shall issue an adverse or qualified actuarial opinion explicitly stating the reason for such opinion. This statement should follow the scope paragraph and precede the opinion paragraph.

(5) RELIANCE ON DATA FURNISHED BY OTHER PERSONS. If the appointed actuary does not express an opinion as to the accuracy and completeness of the listings and summaries of policies in force or asset oriented information or both, there shall be attached to the opinion the statement of a company officer or accounting firm who prepared such underlying data similar to the following:

1. "I [name of officer], [title], of [name of company or accounting firm], hereby affirm that the listings and summaries of policies and contracts in force as of December 31, 19[ ], and other liabilities prepared for and submitted to [name of appointed actuary] were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

Signature of the Officer of the Company or Accounting Firm

Address of the Officer of the Company or Accounting Firm

Telephone Number of the Officer of the Company or Accounting Firm"; or

2. "I, [name of officer], [title] of [name of company, accounting firm, or security analyst], hereby affirm that the listings, summaries and analyses relating to data prepared for and submitted to [name of appointed actuary] in support of the asset-oriented aspects of the opinion were prepared under my direction and, to the best of my knowledge and belief, are substantially accurate and complete.

Signature of the Officer of the Company,

Accounting Firm or the Security Analyst

Address of the Officer of the Company,

Accounting Firm or the Security Analyst

Telephone Number of the Officer of the Company,

Accounting Firm or the Security Analyst"

History: Cr. Register, December, 1995, No. 480, eff. 1-1-96.

### Ins 50.79 Description of the actuarial memorandum including an asset adequacy analysis. (1) GENERAL. (a)

In accordance with subch. IV and ch. 623, Stats., the appointed actuary shall prepare a memorandum to the company describing the analysis done in support of his or her opinion regarding the reserves under a s. Ins 50.78 opinion. The memorandum shall be made available for examination by the commissioner upon his or her request but shall be returned to the company after such examination and shall not be subject to automatic filing with the commissioner.

(b) In preparing the memorandum, the appointed actuary may rely on, and include as a part of his or her own memorandum, memoranda prepared and signed by other actuaries who are qualified within the meaning of s. Ins 50.75 (2), with respect to the areas covered in such memoranda, and so state in their memoranda.

(c) If the commissioner requests a memorandum and no such memorandum exists or if the commissioner finds that the analysis described in the memorandum fails to meet the standards of the actuarial standards board or the standards and requirements of this subchapter, the commissioner may designate a qualified actuary to review the opinion and prepare such supporting memorandum as is required for review. The reasonable and necessary expense of the independent review shall be paid by the company but shall be directed and controlled by the commissioner.

(d) The reviewing actuary shall have the same status as an examiner for purposes of obtaining data from the company and the work papers and documentation of the reviewing actuary shall be retained by the commissioner; provided, however, that any information provided by the company to the reviewing actuary and included in the work papers shall be considered as material provided by the company to the commissioner and shall be kept confidential to the same extent as is prescribed by law with respect to other material provided by the company to the commissioner pursuant to the statute governing this subchapter and as permitted by s. 601.465, Stats. The reviewing actuary shall not be an employee of a consulting firm involved with the preparation of any prior memorandum or opinion for the insurer pursuant to this subchapter for any one of the current year or the preceding three years.

**(2) DETAILS OF THE MEMORANDUM SECTION DOCUMENTING ASSET ADEQUACY ANALYSIS.** When an actuarial opinion under s. Ins 50.78 is provided, the memorandum shall demonstrate that the analysis has been done in accordance with the standards for asset adequacy referred to in s. Ins 50.75 (4) and any additional standards under this subchapter. It shall specify all of the following:

(a) For reserves:

1. Product descriptions including market description, underwriting and other aspects of a risk profile and the specific risks the appointed actuary deems significant;
2. Source of liability in force;
3. Reserve method and basis;
4. Investment reserves; and
5. Reinsurance arrangements.

(b) For assets:

1. Portfolio descriptions, including a risk profile disclosing the quality, distribution and types of assets;
2. Investment and disinvestment assumptions;
3. Source of asset data; and
4. Asset valuation bases.

(c) Analysis basis:

1. Methodology;
2. Rationale for inclusion/exclusion of different blocks of business and how pertinent risks were analyzed;
3. Rationale for degree of rigor in analyzing different blocks of business;
4. Criteria for determining asset adequacy; and
5. Effect of federal income taxes, reinsurance and other relevant factors.

(d) Summary of results.

(e) Conclusions.

**(3) CONFORMITY TO STANDARDS OF PRACTICE.** The memorandum shall include the following statement: "Actuarial methods, considerations and analyses used in the preparation of this memorandum conform to the appropriate standards of practice as promulgated by the actuarial standards board, which standards form the basis for this memorandum."

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

**Ins 50.80 Additional considerations for analysis.**

**(1) AGGREGATION.** For the asset adequacy analysis for the statement of actuarial opinion provided in accordance with s. Ins

50.78, reserves and assets may be aggregated by either of the following methods:

(a) Aggregate the reserves and related actuarial items, and the supporting assets, for different products or lines of business, before analyzing the adequacy of the combined assets to mature the combined liabilities. The appointed actuary must be satisfied that the assets held in support of the reserves and related actuarial items so aggregated are managed in such a manner that the cash flows from the aggregated assets are available to help mature the liabilities from the blocks of business that have been aggregated.

(b) Aggregate the results of asset adequacy analysis of one or more products or lines of business, the reserves for which prove through analysis to be redundant, with the results of one or more products or lines of business, the reserves for which prove through analysis to be deficient. The appointed actuary must be satisfied that the asset adequacy results for the various products or lines of business for which the results are so aggregated:

1. Are developed using consistent economic scenarios; or

2. Are subject to mutually independent risks, that is the likelihood of events impacting the adequacy of the assets supporting the redundant reserves is completely unrelated to the likelihood of events impacting the adequacy of the assets supporting the deficient reserves.

(c) In the event of any aggregation, the actuary shall disclose in his or her opinion that such reserves were aggregated on the basis of method par. (a) or (b) 1. or 2., whichever is applicable, and describe the aggregation in the supporting memorandum.

**(2) SELECTION OF ASSETS FOR ANALYSIS.** The appointed actuary shall analyze only those assets held in support of the reserves which are the subject for specific analysis, referred to in this subchapter as "specified reserves." A particular asset or portion of an asset supporting a group of specified reserves cannot support any other group of specified reserves. An asset may be allocated over several groups of specified reserves. The annual statement value of the assets held in support of the reserves shall not exceed the annual statement value of the specified reserves, except as provided in sub. (3). If the method of asset allocation is not consistent from year to year, the extent of its inconsistency should be described in the supporting memorandum.

**(3) USE OF ASSETS SUPPORTING THE INTEREST MAINTENANCE RESERVE AND THE ASSET VALUATION RESERVE.** (a) An appropriate allocation of assets in the amount of the interest maintenance reserve (IMR), whether positive or negative, shall be used in any asset adequacy analysis. Analysis of risks regarding asset default may include appropriate allocation of assets supporting the asset valuation reserve (AVR). These AVR assets may not be applied for any other risks with respect to reserve adequacy. Analysis of these and other risks may include assets supporting other mandatory or voluntary reserves available to the extent not used for risk analysis and reserve support.

(b) The amount of the assets used for the AVR shall be disclosed in the table of reserves and liabilities of the opinion and in the memorandum. The method used for selecting particular assets or allocated portions of assets shall be disclosed in the memorandum.

**(4) REQUIRED INTEREST SCENARIOS.** For the purpose of performing the asset adequacy analysis required by this subchapter, the qualified actuary is expected to follow standards adopted by the actuarial standards board; nevertheless, the appointed actuary must consider in the analysis the effect of at least the following interest rate scenarios:

(a) Level with no deviation;

(b) Uniformly increasing over 10 years at a half percent per year and then level;

(c) Uniformly increasing at one percent per year over 5 years and then uniformly decreasing at one percent per year to the original level at the end of 10 years and then level;

(d) An immediate increase of 3% and then level;  
(e) Uniformly decreasing over 10 years at a half percent per year and then level;

(f) Uniformly decreasing at one percent per year over 5 years and then uniformly increasing at one percent per year to the original level at the end of 10 years and then level; and

(g) An immediate decrease of 3% and then level.

**(4g)** For scenarios described under sub. (4) and other scenarios which may be used, projected interest rates for a 5 year Treasury Note need not be reduced beyond the point where the 5 year Treasury note yield would be at 50% of its initial level. The beginning interest rates may be based on interest rates for new investments as of the valuation date similar to recent investments allocated to support the product being tested or be based on an outside index, such as Treasury yields, of assets of the appropriate length on a date close to the valuation date. Whatever method is used to determine the beginning yield curve and associated interest rates should be specifically defined. The beginning yield curve and associated interest rates should be consistent for all interest rate scenarios.

**(5) DOCUMENTATION.** The appointed actuary shall retain on file, for at least 7 years, sufficient documentation so that it will be

possible to determine the procedures followed, the analyses performed, the bases for assumptions and the results obtained.

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.

## **Subchapter VI — Risk Retention and Purchasing Groups**

**Ins 50.85 Risk retention groups and risk purchasing groups. (1)** The commissioner is constituted attorney to receive service of summons, notices, orders, pleadings and all other legal process relating to any court or administrative agency in this state for all risk retention groups and risk purchasing groups as to any proceeding arising out of the business of insurance in this state, insurance activities in this state, or out-of-state activities related to policies on risks within this state.

**(2)** A risk retention group or risk purchasing group may not conduct an insurance business or engage in any insurance activity in this state until it registers with the commissioner and designates the commissioner as its agent for the purposes described under sub. (1). If a risk retention group or risk purchasing group fails to designate the commissioner as required by this section, the commissioner is deemed appointed as provided by sub. (1).

**History:** Cr. Register, December, 1995, No. 480, eff. 1-1-96.